

Valley Springs School District No. 2

Boone County, Arkansas

Regulatory Basis Financial Statements and Other Reports

June 30, 2011

LEGISLATIVE JOINT AUDITING COMMITTEE



VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
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JUNE 30, 2011

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Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Valley Springs School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We have audited the accompanying financial statements of each major governmental fund and the aggregate remaining fund information of the Valley Springs School District No. 2 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements as listed in the table of contents. These financial statements are the responsibility of District management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, the District has prepared these financial statements using accounting practices prescribed or permitted by Arkansas Code, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2011, or the changes in financial position for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, the District changed the classifications of its governmental fund balances on July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's regulatory basis financial statements. The Schedule of Capital Assets (Schedule 1), Schedule of Expenditures of Federal Awards (Schedule 2), as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Schedule of Findings and Questioned Costs (Schedule 3), Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4), and Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) are presented for purposes of additional analysis and are not a required part of the regulatory basis financial statements. The Schedule of Expenditures of Federal Awards (Schedule 2), Schedule of Findings and Questioned Costs (Schedule 3), and Federal Award Programs - Summary Schedule of Prior Audit Findings (Schedule 4) have been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the regulatory basis financial statements taken as a whole. The Schedule of Capital Assets (Schedule 1) and the Schedule of Selected Information for the Last Five Years - Regulatory Basis (Schedule 5) have not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and, accordingly, we express no opinion on them.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in dark ink, appearing to read "Roger A. Norman". The signature is fluid and cursive, with the first name "Roger" being more prominent.

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, Arkansas
November 21, 2011
EDSD03011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
Rep. Toni Bradford
House Vice Chair

Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Valley Springs School District No. 2 and School Board Members
Legislative Joint Auditing Committee

We have audited the financial statements of each major governmental fund and the aggregate remaining fund information of the Valley Springs School District No. 2 (the "District"), as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated November 21, 2011. We issued an adverse opinion because the District prepared the financial statements using accounting practices prescribed or permitted by the Arkansas Code, which differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. However, the financial statements present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the respective budgetary comparison for the general and special revenue funds for the year then ended, on the basis of accounting described in Note 1. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the regulatory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1 to be a material weakness.

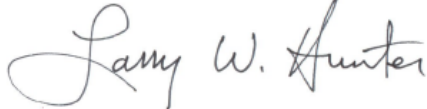
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's regulatory basis financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of the state constitution, state and federal laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter".

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 21, 2011

Sen. Bill Pritchard
Senate Chair
Rep. Tim Summers
House Chair
Sen. David Wyatt
Senate Vice Chair
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Arkansas



Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE DIVISION OF LEGISLATIVE AUDIT

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Valley Springs School District No. 2 and School Board Members
Legislative Joint Auditing Committee

Compliance

We have audited the Valley Springs School District No. 2 (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

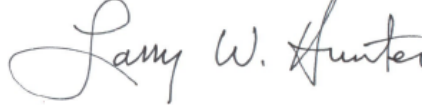
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of the Legislative Joint Auditing Committee, the local school board and District management, state executive and oversight management, federal regulatory and oversight bodies, the federal awarding agencies and pass-through entities, and other parties as required by Arkansas Code, and is not intended to be and should not be used by anyone other than these specified parties. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record and distribution is not limited.

DIVISION OF LEGISLATIVE AUDIT

A handwritten signature in cursive script that reads "Larry W. Hunter". The signature is written in dark ink and is positioned above the printed name and title.

Larry W. Hunter, CPA, CFE
Deputy Legislative Auditor

Little Rock, Arkansas
November 21, 2011

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
BALANCE SHEET - REGULATORY BASIS
JUNE 30, 2011

Exhibit A

	Governmental Funds			
	Major			
	General	Special Revenue	Other Aggregate	Fiduciary Fund Types
ASSETS				
Cash	\$ 267,390		\$ 134,483	\$ 47,278
Investments	396,590		481,073	2,548
Accounts receivable		\$ 79,864		
Property taxes receivable	48,984			
Due from other funds	40,979			
Deposit with paying agent			144,486	
TOTAL ASSETS	\$ 753,943	\$ 79,864	\$ 760,042	\$ 49,826
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 54,659			
Due student groups				\$ 47,278
Due to other funds		\$ 40,979		
Total Liabilities	54,659	40,979		47,278
Fund Balances:				
Nonspendable			\$ 510,073	
Restricted	39,157	38,885	249,969	2,548
Assigned	53,321			
Unassigned	606,806			
Total Fund Balances	699,284	38,885	760,042	2,548
TOTAL LIABILITIES AND FUND BALANCES	\$ 753,943	\$ 79,864	\$ 760,042	\$ 49,826

The accompanying notes are an integral part of these financial statements.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit B

	Major		Other
	General	Special Revenue	Aggregate
REVENUES			
Property taxes (including property tax relief trust distribution)	\$ 1,457,395		
State assistance	5,202,831	\$ 3,433	
Federal assistance		1,091,682	\$ 61,779
Activity revenues	163,466		
Meal sales		104,896	
Investment income	20,078		29,734
Other revenues	82,788		5
TOTAL REVENUES	6,926,558	1,200,011	91,518
EXPENDITURES			
Regular programs	3,044,603	238,226	4,269
Special education	380,957	170,557	
Workforce education programs	196,881		
Compensatory education programs	53,359	227,328	
Other instructional programs	53,478		
Student support services	282,658	123,808	
Instructional staff support services	547,040	71,402	
General administration support services	175,356	6,725	269
School administration support services	395,764		
Central services support services	104,842	2,529	
Operation and maintenance of plant services	669,186	1,418	142
Student transportation services	316,763	954	
Other support services	8,363	9,789	
Food services operations		349,396	
Community services operations	151	1,272	
Facilities acquisition and construction services	189,618	4,400	65,608
Activity expenditures	168,120		
Debt Service:			
Principal retirement			150,000
Interest and fiscal charges			80,446
TOTAL EXPENDITURES	6,587,139	1,207,804	300,734
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	339,419	(7,793)	(209,216)
OTHER FINANCING SOURCES (USES)			
Transfers in			257,822
Transfers out	(257,822)		
Value of capital lease	187,868		
Refund to grantor	(18,593)	(2,840)	
Net bond issuance costs			(38,895)
Payment to refunding bond escrow agent			(1,071,246)
Proceeds from sale of refunding bonds			1,115,000
TOTAL OTHER FINANCING SOURCES (USES)	(88,547)	(2,840)	262,681
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	250,872	(10,633)	53,465
FUND BALANCES - JULY 1 (RESTATED)	448,412	49,518	706,577
FUND BALANCES - JUNE 30	\$ 699,284	\$ 38,885	\$ 760,042

The accompanying notes are an integral part of these financial statements.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Property taxes (including property tax relief trust distribution)	\$ 1,469,000	\$ 1,457,395	\$ (11,605)			
State assistance	5,121,025	5,202,831	81,806		\$ 3,433	\$ 3,433
Federal assistance				\$ 871,861	1,091,682	219,821
Activity revenues		163,466	163,466			
Meal sales				104,000	104,896	896
Investment income	35,000	20,078	(14,922)			
Other revenues	13,000	82,788	69,788			
TOTAL REVENUES	6,638,025	6,926,558	288,533	975,861	1,200,011	224,150
EXPENDITURES						
Regular programs	3,181,066	3,044,603	136,463	50,524	238,226	(187,702)
Special education	377,193	380,957	(3,764)	175,376	170,557	4,819
Workforce education programs	209,951	196,881	13,070			
Compensatory education programs	54,889	53,359	1,530	234,735	227,328	7,407
Other instructional programs	73,730	53,478	20,252			
Student support services	272,779	282,658	(9,879)	120,573	123,808	(3,235)
Instructional staff support services	537,914	547,040	(9,126)	66,734	71,402	(4,668)
General administration support services	176,055	175,356	699	6,698	6,725	(27)
School administration support services	387,335	395,764	(8,429)			
Central services support services	101,920	104,842	(2,922)	3,020	2,529	491
Operation and maintenance of plant services	664,455	669,186	(4,731)	660	1,418	(758)
Student transportation services	280,689	316,763	(36,074)		954	(954)
Other support services	10,000	8,363	1,637	6,186	9,789	(3,603)
Food services operations				300,882	349,396	(48,514)
Community services operations		151	(151)	3,000	1,272	1,728
Facilities acquisition and construction services	2,000	189,618	(187,618)		4,400	(4,400)
Non-programmed costs	18,593		18,593			
Activity expenditures		168,120	(168,120)			
TOTAL EXPENDITURES	6,348,569	6,587,139	(238,570)	968,388	1,207,804	(239,416)

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Exhibit C

	General			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 289,456	\$ 339,419	\$ 49,963	\$ 7,473	\$ (7,793)	\$ (15,266)
OTHER FINANCING SOURCES (USES)						
Transfers in	3,741,194		(3,741,194)			
Transfers out	(4,000,855)	(257,822)	3,743,033			
Value of capital lease		187,868	187,868			
Refund to grantor		(18,593)	(18,593)		(2,840)	(2,840)
TOTAL OTHER FINANCING SOURCES (USES)	(259,661)	(88,547)	171,114		(2,840)	(2,840)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	29,795	250,872	221,077	7,473	(10,633)	(18,106)
FUND BALANCES - JULY 1 (as restated)	897,440	448,412	(449,028)	46,532	49,518	2,986
FUND BALANCES - JUNE 30	\$ 927,235	\$ 699,284	\$ (227,951)	\$ 54,005	\$ 38,885	\$ (15,120)

The accompanying notes are an integral part of these financial statements.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Board of Education, a five member group, is the level of government, which has responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Valley Springs School District (District). There are no component units.

B. Description of Funds

Major governmental funds (per the regulatory basis of accounting) are defined as General and Special Revenue.

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Special Revenue Fund includes federal revenues and related expenditures, restricted for specific educational programs or projects, including the District's food services operations. The Special Revenue Fund also includes required matching for those federal programs, program income required to be used to further the objectives of those programs, and transfers from the general fund to supplement such programs.

Other governmental funds, presented in the aggregate, consist of the following:

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The Capital Projects Fund excludes those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Debt Service Fund – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Fund – The Permanent Fund is used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Fiduciary Fund types include the following:

Agency Funds – Agency Funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities).

Private-purpose Trust Funds – Private-purpose trust funds are used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

The financial statements are prepared in accordance with a regulatory basis of accounting (RBA). This basis of accounting is prescribed by Ark. Code Ann. § 10-4-413(c), as provided in Act 2201 of 2005, and requires that financial statements be presented on a fund basis with, as a minimum, the general fund and special revenue fund presented separately and all other funds included in the audit presented in the aggregate. The law also stipulates that the financial statements consist of a balance sheet; a statement of revenues, expenditures, and changes in fund balances; a comparison of the final adopted budget to the actual expenditures for the general fund and special revenue funds of the entity; notes to financial statements; and a supplemental schedule of capital assets, including land, buildings, and equipment. The law further stipulates that the State Board of Education shall promulgate the rules necessary to administer the regulatory basis of presentation.

The RBA is not in accordance with generally accepted accounting principles (GAAP). GAAP require that basic financial statements present government-wide financial statements. Additionally, GAAP require the following major concepts: Management's Discussion and Analysis, accrual basis of accounting for government-wide financial statements, including depreciation expense, modified accrual basis of accounting for fund financial statements, separate financial statements for fiduciary fund types, separate identification of special and extraordinary items, inclusion of capital assets and debt in the financial statements, specific procedures for the identification of major governmental funds, and applicable note disclosures. The RBA does not require government-wide financial statements or the previously identified concepts.

The accompanying financial statements are presented on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for purposes of recording specific activities or attaining certain objectives. Revenues are reported by major sources and expenditures are reported by major function. Other transactions, which are not reported as revenues or expenditures, are reported as other financing sources and uses. Transactions related to the recording of installment contracts and capital leases are reported as other financing sources. Changes in private-purpose trust funds will be reflected in the notes to the financial statements.

D. Revenue Recognition Policies

Revenues are recognized when they become susceptible to accrual in accordance with the RBA, except for property taxes (see Note 1 F below).

E. Capital Assets

Information on capital assets and related depreciation is reported at Schedule 1. Capital assets are capitalized at historical cost or estimated historical cost, if actual data is not available. Capital assets purchased are recorded as expenditures in the applicable fund at the time of purchase. Donated capital assets are reported at fair value when received. The District maintains a threshold level of \$1,000 for capitalizing equipment. Library holdings are not capitalized.

No salvage value is taken into consideration for depreciation purposes. All capital assets, other than land and construction in progress, are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life in Years</u>
Improvements/infrastructure	20
Buildings	50
Equipment	5-20

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property Taxes

Property taxes are levied (tax rates are established) in November of each year based on property assessment (real and personal) that occurred within a specific period of time beginning January 1 of the same year. Property taxes are collectible beginning the first business day of March of the year following the levy date and are considered delinquent after October 15 of the same calendar year. Property taxes are accrued or deferred, as applicable, in accordance with guidelines issued by the Arkansas Department of Education (ADE), which were effective beginning with the fiscal year ended June 30, 2006. Arkansas law defines revenue receipts of a school district and includes 40% of the proceeds of local taxes which are not pledged to secure bonded indebtedness or 40% of the revenue from the uniform rate of tax whichever is greater collected in the succeeding calendar year, commonly known as 40% pullback, within that definition. The ADE has determined that school districts must utilize the 40% pullback amount, as calculated by the ADE and reflected on the respective county's abstract of assessments, in recording property tax revenue as follows:

- If the amount of 40% pullback collected by June 30th is less than the calculated 40% pullback amount, the difference must be accrued;
- If the amount of 40% pullback collected by June 30th is more than the calculated 40% pullback amount, the excess must be recorded as deferred taxes.

Amendment no. 74 to the Arkansas Constitution established a uniform minimum property tax millage rate of 25 mills for maintenance and operation of public schools. Ark. Code Ann. § 26-80-101 provides the uniform rate of tax (URT) shall be assessed and collected in the same manner as other school property taxes, but the net revenues from the URT shall be remitted to the State Treasurer and distributed by the State to the county treasurer of each county for distribution to the school districts in that county. For reporting purposes, URT revenues are considered property taxes.

G. Interfund Receivables and Payables

Interfund receivables and payables result from services rendered from one fund to another or from interfund loans.

H. Fund Balance Classifications

1. Nonspendable fund balance – represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. Restricted fund balance – represents amounts that are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
3. Assigned fund balance – represents amounts that are constrained by the District's *intent* to be used for specific purposes, but are neither restricted nor committed.
4. Unassigned fund balance – represents amounts that have not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This classification can also include negative amounts in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Budget and Budgetary Accounting

The District is required by state law to prepare an annual budget. The annual budget is prepared on a fiscal year basis. The District does not prepare and submit amended budgets during the fiscal year. The State Department of Education's regulations allow for the cash basis or the modified accrual basis. However, the majority of the school districts employ the cash basis method.

The District budgets intra-fund transfers. Significant variances may result in the comparison of transfers at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General and Special Revenue Funds – Regulatory Basis because only interfund transfers are reported at the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Regulatory Basis.

Budgetary perspective differences are not considered to be significant, because the structure of the information utilized in preparing the budget and the applicable fund financial statements is essentially the same.

J. Stabilization Arrangements

The District's Board of Education has not formally set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise.

K. Minimum Fund Balance Policies

The District's Board of Education has not formally adopted a minimum fund balance policy.

L. Fund Balance Classification Policies and Procedures

The Superintendent, in conjunction with other management and accounting personnel, is authorized to assign amounts to a specific purpose. The District's Board of Education has not adopted a formal policy addressing this authorization.

The District's revenues, expenditures, and fund balances are tracked in the accounting system by numerous sources of funds. The fund balances of these sources of funds are combined to derive the District's total fund balances by fund. It is uncommon for an individual source of funds to contain restricted and unrestricted (committed, assigned, or unassigned) funds. The District does not have a policy addressing whether it considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. District personnel decide which resources (source of funds) to use at the time expenditures are incurred. For classification of fund balance amounts, restricted resources are considered spent before unrestricted. The District does not have a policy addressing which resources to use within the unrestricted fund balance when committed, assigned, or unassigned fund balances are available. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, committed amounts are reduced first, followed by assigned amounts, and then unassigned amounts.

M. Encumbrances

The District does not utilize encumbrance accounting.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Change in Accounting Principle

The District adopted Governmental Accounting Standards Board (GASB) Statement no. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010. GASB Statement no. 54 changed the classifications of governmental fund balances from reserved and unreserved to nonspendable, restricted, committed, assigned, and unassigned.

2: CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash deposits are carried at cost (carrying value). A comparison of the bank balance and carrying value is as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 251,401	\$ 251,401
Collateralized:		
Collateral held by the pledging bank or pledging bank's trust department in the District's name	<u>996,888</u>	<u>1,684,623</u>
Total Deposits	<u>\$ 1,248,289</u>	<u>\$ 1,936,024</u>

The above total deposits include certificates of deposit of \$799,138 reported as investments and classified as nonparticipating contracts.

3: INVESTMENTS

At June 30, 2011, the District's investments consisted of Windstream common stock with a market value of \$81,073. The earnings from the stock are used for improvements and maintenance of Albright Hall. Additionally, investments included certificates of deposit of \$799,138 classified as nonparticipating contracts. See Note 2.

Concentration of Credit Risk – The District places no limit on the amount it may invest in any one issuer. More than five percent of the District's investments are in Windstream stock. All of the investments reported in the other aggregate funds are Windstream stock, a gift primarily from Lena A. Moore.

4: ACCOUNTS RECEIVABLE

The accounts receivable balance of \$79,864 at June 30, 2011 was comprised of the following:

	<u>Governmental Fund</u>
	<u>Major</u>
	<u>Special</u>
<u>Description</u>	<u>Revenue</u>
Federal assistance	<u>\$ 79,864</u>

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5: COMMITMENTS

The District was contractually obligated for the following at June 30, 2011:

A. Construction Contract

Project Name	Estimated Completion Date	Contract Balance
Elementary Corridor enclosure	September 30, 2011	\$ 300,048

B. Long-term Debt Issued and Outstanding

The District is presently paying on the following long-term debt:

Date of Issue	Date of Final Maturity	Rate of Interest	Authorized and Issued	Outstanding June 30, 2011	To June 30, 2011
11/1/03	2/1/23	3.15 - 4.125%	\$ 1,766,864	\$ 1,260,000	\$ 506,864
11/1/10	2/1/23	1 - 3.1%	1,115,000	1,045,000	70,000
11/14/02	11/14/16		250,000	250,000	
12/8/10	12/8/13	4.999%	10,000	10,000	
5/1/11	5/1/21	4.7%	187,868	187,868	
Totals			\$ 3,329,732	\$ 2,752,868	\$ 576,864

Changes in Long-term Debt

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011
Bonds payable	\$ 2,645,000	\$ 1,115,000	\$ 1,205,000	\$ 2,555,000
Notes payable		10,000 (1)		10,000
Capital leases		187,868		187,868
Totals	\$ 2,645,000	\$ 1,312,868	\$ 1,205,000 *	\$ 2,752,868

*Includes \$1,055,000 early retirement of debt - See Note 7.

(1) On December 8, 2010, the District obtained a loan of \$10,000 for the FFA to purchase cattle. The note will be repaid from FFA funds, held in a fiduciary capacity by the District.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5: COMMITMENTS (Continued)

B. Long-term Debt Issued and Outstanding (Continued)

Total long-term debt principal and interest payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	\$ 173,285	\$ 81,696	\$ 254,981
2013	179,162	77,353	256,515
2014	190,066	72,735	262,801
2015	197,367	67,361	264,728
2016	198,193	61,793	259,986
2017-2021	1,349,795	205,823	1,555,618
2022-2023	465,000	25,800	490,800
Totals	<u>\$ 2,752,868</u>	<u>\$ 592,561</u>	<u>\$ 3,345,429</u>

Capital Leases

The District has executed the following capital leases:

Class of Property	Asset Balance June 30, 2011
Excel lighting	<u>\$ 187,868</u>
	<u>June 30, 2011</u>
Total Minimum Lease Payments	\$ 237,622
Less: Amount Representing Interest	<u>49,754</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 187,868</u>

Qualified Zone Academy Bond (QZAB)

On November 14, 2002, the District obtained funding through the Qualified Zone Academy Bond (QZAB) program, a financial arrangement authorized under the Taxpayer Relief Act of 1997. A QZAB does not generally require interest payments from the borrower. The eligible financial institution holding the bond receives a tax credit in lieu of interest payments. The principal is not due until the end of the term. The District borrowed \$250,000 through this program by issuing bonds. The District will deposit an amount determined by the paying agent annually into a sinking fund for 14 years. The contributions to the sinking fund plus interest earned will be used to retire the debt when due.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The accounts payable and accrued liabilities balance of \$54,659 at June 30, 2011 was comprised of the following:

Description	Governmental Fund	
	Major	
	General	
Vendor payables	\$	41,424
Due to grantors		13,235
Total	\$	54,659

7: DEBT REFUNDINGS

On November 1, 2010, the District issued \$1,115,000 in refunding bonds with interest rates of 1 to 3.1 percent. The bond proceeds were used to advance refund \$1,055,000 of outstanding bonds dated November 1, 2002 with interest rates of 3.5 to 4.5 percent. Net bond proceeds of \$1,071,246 were remitted to an escrow agent to provide for all future debt service payments for the bonds advance refunded and to pay fees. The 2002 series bonds were called for redemption on December 1, 2010. The 2002 series bonds were advance refunded to reduce the District's debt service requirements by \$82,070 over a period of 13 years.

The remaining proceeds of \$4,859 (after payment of \$38,895 net bond issuance costs) were applied toward the first interest payment of the bond issue dated November 1, 2010.

8: INTERFUND TRANSFERS

The District transferred \$257,822 from the general fund to the other aggregate funds for debt related payments totaling \$246,537 and annual debt savings of \$11,285 required to be utilized for capital expenditures.

9: RETIREMENT PLANS

Arkansas Teacher Retirement System

Plan Description. The District contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing multiple-employer defined benefit pension plan that covers all Arkansas public school employees, except certain nonteachers hired before July 1, 1989. ATRS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Teacher Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for ATRS. That report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-666-2877.

Funding Policy. ATRS has contributory and noncontributory plans. Contributory members are required by State law to contribute 6% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate is 14% of covered salaries, the maximum allowed by State law. The District's contributions to ATRS for the years ended June 30, 2011, 2010, and 2009 were \$677,325, \$695,247, and \$672,673, respectively, equal to the required contributions for each year.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

9: RETIREMENT PLANS (Continued)

Arkansas Public Employees Retirement System

Plan Description. The District contributes to the Arkansas Public Employees Retirement System (APERS), a cost-sharing multiple-employer defined benefit pension plan that covers certain nonteachers hired before July 1, 1989. APERS, administered by a Board of Trustees, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and can be amended only by the Arkansas General Assembly. The Arkansas Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for APERS. That report may be obtained by writing to Arkansas Public Employees Retirement System, 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 1-800-682-7377.

Funding Policy. APERS has contributory and noncontributory plans. Contributory members are required by State law to contribute 5% of their salaries. Each participating employer is required by State law to contribute at a rate determined by the Board of Trustees, based on the annual actuarial valuation. The current employer rate for school districts is 4% of covered salaries. The District's contributions to APERS for the years ended June 30, 2011, 2010, and 2009 were \$2,958, \$2,945, and \$1,706, respectively, equal to the required contributions for each year.

10: PRIOR YEAR RESTATEMENT

To comply with GASB Statement no. 54, the beginning fund balance of the special revenue fund was decreased by \$8,368 and the beginning fund balance of the other aggregate funds was increased by the same amount to reclassify certain financial resources required to be used for capital projects.

11: CHANGES IN PRIVATE-PURPOSE TRUST FUNDS

ADDITIONS	
Interest	\$ 41
DEDUCTIONS	
Scholarships	<u>1,000</u>
CHANGE IN FUND BALANCE	(959)
FUND BALANCE - JULY 1	<u>3,507</u>
FUND BALANCE - JUNE 30	<u><u>\$ 2,548</u></u>

12: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District participates in the Arkansas School Boards Association – Workers' Compensation Trust (the Trust), a self-insurance trust voluntarily established on July 1, 1994 pursuant to state law. The Trust is responsible for obtaining and administering workers' compensation insurance coverage for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Trust is responsible for monitoring, negotiating, and settling claims that have been filed on behalf of and against member districts. The District contributes annually to this program.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

12: RISK MANAGEMENT (Continued)

Additionally, the District participates in the Arkansas School Boards Association – Risk Management Program (the Association), a self-insurance program voluntarily established on February 1, 1984 pursuant to state law. The Association is responsible for obtaining and administering insurance coverage for property and vehicles for its members, as well as obtaining reinsurance coverage for those claims that exceed the standard policy limits. In its administrative capacity, the Association is responsible for monitoring, negotiating, and settling claims that have been filed against member districts. The District pays an annual premium for its coverage of buildings, contents, and vehicles.

The District participates in the Arkansas Fidelity Bond Trust Fund administered by the Governmental Bonding Board. This program provides coverage for actual losses sustained by its members through fraudulent or dishonest acts committed by officials or employees. Each loss is limited to \$250,000 with a \$1,000 deductible. Premiums for coverage are paid by the Chief Fiscal Officer of the State of Arkansas from funds withheld from the Public School Fund.

13: ON-BEHALF PAYMENTS

The allocation of the health insurance premiums paid by the Arkansas Department of Education to the Employee Benefits Division, on-behalf of the District's employees, totaled \$115,105 for the year ended June 30, 2011.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

14: DETAILS OF GOVERNMENTAL FUND BALANCE CLASSIFICATIONS DISPLAYED IN THE AGGREGATE

Description	Governmental Funds			Total
	Major		Other Aggregate	
	General	Special Revenue		
Fund Balances:				
Nonspendable:				
Permanent fund principal			\$ 510,073	\$ 510,073
Restricted for:				
Educational programs -				
national school lunch state				
categorical funding	\$ 3			3
English-language learners	2,344			2,344
Professional development	7,164			7,164
Capital projects			16,149	16,149
Child nutrition programs		\$ 6,449		6,449
Debt service			144,486	144,486
Medical services		31,945		31,945
Special education programs	26,577			26,577
Building improvement and maintenance			89,334	89,334
Other purposes	3,069	491		3,560
Total Restricted	39,157	38,885	249,969	328,010
Assigned to:				
Student activities	53,321			53,321
Unassigned	606,806			606,806
Totals	\$ 699,284	\$ 38,885	\$ 760,042	\$ 1,498,211

15: LENA A. MOORE AND EULA ALBRIGHT ENDOWMENT FUND

On July 11, 1988, through a donation from Lena A. Moore, the District received 2,000 shares of common stock of Alltel Corporation valued at \$69,260. This gift created the "Lena A. Moore and Eula Albright Endowment Fund". On July 12, 2006, the District received 6,203 shares of Windstream Corporation common stock as a result of the spin-off of Alltel's wire line business and subsequent merger with Valor Communications Group, Inc. On November 16, 2007, as a result of Alltel Corporation becoming controlled by a privately owned investment company, the District was required to exchange its 6,000 shares of Alltel stock for \$71.50 cash per share. On January 3, 2008, the District received \$429,000 cash from the completed transaction. The cash received is considered to be part of the endowment fund and any future earnings shall be used for the maintenance and building improvements of Albright Hall.

The value of the endowment fund at June 30, 2011 was \$510,073 and was comprised of 6,203 shares of Windstream common stock valued at \$81,073. Cash proceeds from the sale of the Alltel stock was \$429,000.

The investment earnings from the endowment are restricted for building improvements and maintenance of Albright Hall. The balance of the unexpended investments earnings was \$89,334 at June 30, 2011.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

Schedule 1

	Balance June 30, 2011
<i>Nondepreciable capital assets:</i>	
Land	\$ 542,827
Construction in progress	65,608
Total nondepreciable capital assets	<u>608,435</u>
<i>Depreciable capital assets:</i>	
Buildings	6,104,477
Improvements/infrastructure	49,844
Equipment	2,321,633
Total depreciable capital assets	<u>8,475,954</u>
Less accumulated depreciation for:	
Buildings	1,995,859
Improvements/infrastructure	29,850
Equipment	1,740,277
Total accumulated depreciation	<u>3,765,986</u>
Total depreciable capital assets, net	<u>4,709,968</u>
Capital assets, net	<u><u>\$ 5,318,403</u></u>

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER			
<u>U. S. Department of Agriculture</u>			
Direct Program:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 3)	10.555		\$ 908
Passed Through State Department of Education:			
School Breakfast Program - Cash Assistance	10.553	05-05	30,847
National School Lunch Program - Cash Assistance	10.555	05-05	182,136
Total State Department of Education			212,983
Passed Through State Department of Human Services:			
National School Lunch Program - Non-Cash Assistance (Food Distribution) (Note 4)	10.555	0505000	22,749
TOTAL CHILD NUTRITION CLUSTER			236,640
TITLE I, PART A CLUSTER			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	05-05	244,688
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	05-05	8,360
TOTAL TITLE I, PART A CLUSTER			253,048
SPECIAL EDUCATION CLUSTER (IDEA)			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	05-05	242,931
ARRA - Special Education - Grants to States, Recovery Act	84.391	05-05	27,911
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			270,842
OTHER PROGRAMS			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
Safe and Drug-Free Schools and Communities - State Grants	84.186	05-05	2,060
Fund for the Improvement of Education	84.215	05-05	34
Rural Education	84.358	05-05	22,999
Improving Teacher Quality State Grants	84.367	05-05	58,378
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	05-05	70,147
ARRA - Education Jobs Fund, Recovery Act	84.410	05-05	186,076
Total U. S. Department of Education			339,694
TOTAL OTHER PROGRAMS			339,694
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,100,224

The accompanying notes are an integral part of this schedule.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 2

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- Note 1: Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Valley Springs School District No. 2 (District) under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in financial position of the District.
- Note 2: Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the regulatory basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.
- Note 3: Nonmonetary assistance is reported at the approximate value as provided by the U. S. Department of Defense through an agreement with the U. S. Department of Agriculture.
- Note 4: Nonmonetary assistance is reported at the approximate value as provided by the State Department of Human Services.
- Note 5: During the year ended June 30, 2011, the District received Medicaid funding of \$48,330 from the State Department of Human Services. Such payments are not considered Federal awards expended, and therefore, are not included in the above schedule.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Types of auditor's reports issued: GAAP basis of reporting - adverse
Regulatory basis opinion units - unqualified

Internal control over financial reporting:

☒ Material weakness(es) identified? ☒ yes ☐ no
☒ Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

FEDERAL AWARDS

Internal control over major programs:

☒ Material weakness(es) identified? ☐ yes ☒ no
☒ Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of OMB Circular A-133? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010 and 84.389	Title I, Part A Cluster
84.027 and 84.391	Special Education Cluster (IDEA)
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act

Dollar threshold used to distinguish between type A and type B
programs: \$ 300,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 3

SECTION II - FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2011-1. Internal Control

Criteria or specific requirement: Internal control is a process consisting of five interrelated components - *control environment, risk assessment, information and communication, control activities, and monitoring*. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.

Condition: Deficiencies in the internal control component of control activities adversely affected the District's ability to initiate, authorize, record, process, and report financial data in accordance with the regulatory basis of accounting such that there was a reasonable possibility that a material misstatement of the District's financial statements would not be prevented, or detected and corrected on a timely basis. Financial accounting duties were not adequately segregated among employees. Specifically, certain key weaknesses included the following: non-payroll checks were prepared by the same employee responsible for the maintenance of accounting records. Payroll checks were prepared by the same employee responsible for changes to the payroll amounts, without compensating controls. The same employee was responsible for receiving and depositing monies collected, maintenance of accounting records, and preparation of bank reconciliations, without compensating controls.

Context: An understanding of five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures was obtained.

Effect: The District's ability to initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements, as well as the ability to safeguard District assets, was adversely affected by the identified weaknesses in the above internal control component.

Cause: District management, due to cost/benefit implications, which hindered the District's ability to adequately segregate financial accounting duties among employees, did not effectively address the deficiency in internal control.

Recommendation: District management should adopt sound accounting policies and establish and maintain internal control that will initiate, authorize, record, process, and report transactions consistent with management's assertions embodied in the financial statements and that will safeguard District assets.

Views of responsible officials and planned corrective actions: We concur with the recommendation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
FEDERAL AWARD PROGRAMS -
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Schedule 4

There were no findings in the prior audit.

VALLEY SPRINGS SCHOOL DISTRICT NO. 2
BOONE COUNTY, ARKANSAS
SCHEDULE OF SELECTED INFORMATION FOR THE LAST FIVE YEARS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011
(Unaudited)

<u>General Fund</u>	Year Ended June 30,				
	2011	2010	2009	2008	2007
Total Assets	\$ 753,943	\$ 449,301	\$ 744,168	\$ 1,325,052	\$ 1,783,146
Total Liabilities	54,659	889	233,380	47,172	
Total Fund Balances	699,284	448,412	510,788	1,277,880	1,783,146
Total Revenues	6,926,558	6,867,803	6,824,354	6,978,218	7,077,130
Total Expenditures	6,587,139	6,672,045	7,302,842	7,188,577	7,066,593
Total Other Financing Sources (Uses)	(88,547)	(258,134)	(288,604)	(294,907)	(300,829)
<u>Special Revenue Fund</u>					
Total Assets	79,864	58,120	184,113	138,282	97,612
Total Liabilities	40,979	234	413	490	
Total Fund Balances	38,885	57,886	183,700	137,792	97,612
Total Revenues	1,200,011	1,311,104	938,152	824,728	822,213
Total Expenditures	1,207,804	1,436,918	924,983	822,187	858,508
Total Other Financing Sources (Uses)	(2,840)		32,739	37,639	39,011
<u>Other Aggregate Funds</u>					
Total Assets	760,042	698,209	662,289	672,904	617,976
Total Liabilities				13,030	
Total Fund Balances	760,042	698,209	662,289	659,874	617,976
Total Revenues	91,518	26,758	576,942	93,521	123,973
Total Expenditures	300,734	248,972	805,704	308,621	313,331
Total Other Financing Sources (Uses)	262,681	258,134	231,177	257,268	261,818